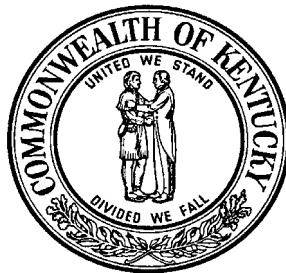


**REPORT OF THE AUDIT OF THE
FORMER PERRY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
July 29, 2006 Through December 31, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER PERRY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

For The Period July 29, 2006 Through December 31, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for former Perry County Sheriff for the period July 29, 2006 through December 31, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$5,643,363 for the districts for 2006 taxes, retaining commissions of \$171,006 to operate the Sheriff's office. The former Sheriff distributed taxes of \$5,450,085 to the districts for 2006 Taxes. Taxes of \$21,784 are due to the districts from the former Sheriff and refunds of \$24 are due to the former Sheriff from the taxing districts.

Report Comments:

- The Former Sheriff Had A Deficit Of \$21,739 In His Official 2006 Outgoing Tax Account
- The Former Sheriff Should Settle 2006 Outgoing Taxes
- The Former Sheriff Should Distribute Additional Amounts Due Others
- An Accurate And Complete Receipts Ledger Was Not Maintained
- The Former Sheriff Should Have Distributed Franchise Tax Collections By The Tenth Of Each Month
- Tax Collections Were Not Always Deposited Timely
- The Practice Of Cashing Checks From Office Funds Should Have Been Prohibited
- The Former Sheriff Had A Deficit Of \$136,658 In His Official 2005 Tax Account
- The Former Sheriff Had A Deficit Of \$162,727 In His Official 2004 Tax Account
- The Former Sheriff Had A Deficit Of \$195,985 In His Official 2003 Tax Account
- The Former Sheriff Had A Deficit Of \$44,379 In His Official 2002 Incoming Tax Account
- The Former Sheriff Should Settle Prior Year 2005, 2004, 2003, And 2002 Incoming Taxes
- The Former Sheriff Should Distribute Prior Years Additional Amounts Due Others
- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits
- Daily Receipt Listings For Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities
- The Former Sheriff Should Have Controlled The Use Of His Signature In The Check Signing Process
- The Former Sheriff Should Have Improved Recordkeeping Procedures
- The Former Sheriff Should Have Implemented Compensating Internal Controls To Offset The Lack Of Adequate Segregation Of Duties

Deposits:

The former Sheriff did not have a written security agreement to protect deposits.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Denny Ray Noble, Perry County Judge/Executive

Honorable Dennis P. Wooton, Former Perry County Sheriff

Honorable John Leslie Burgett, Perry County Sheriff

Members of the Perry County Fiscal Court

Independent Auditor's Report

We have audited the former Perry County Sheriff's Settlement - 2006 Taxes for the period July 29, 2006 through December 31, 2006. This tax settlement is the responsibility of the former Perry County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Perry County Sheriff's taxes charged, credited, and paid for the period July 29, 2006 through December 31, 2006, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Denny Ray Noble, Perry County Judge/Executive

Honorable Dennis P. Wooton, Former Perry County Sheriff

Honorable John Leslie Burgett, Perry County Sheriff

Members of the Perry County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 4, 2008 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Had A Deficit Of \$21,739 In His Official 2006 Outgoing Tax Account
- The Former Sheriff Should Settle 2006 Outgoing Taxes
- The Former Sheriff Should Distribute Additional Amounts Due Others
- An Accurate And Complete Receipts Ledger Was Not Maintained
- The Former Sheriff Should Have Distributed Franchise Tax Collections By The Tenth Of Each Month
- Tax Collections Were Not Always Deposited Timely
- The Practice Of Cashing Checks From Office Funds Should Have Been Prohibited
- The Former Sheriff Had A Deficit Of \$136,658 In His Official 2005 Tax Account
- The Former Sheriff Had A Deficit Of \$162,727 In His Official 2004 Tax Account
- The Former Sheriff Had A Deficit Of \$195,985 In His Official 2003 Tax Account
- The Former Sheriff Had A Deficit Of \$44,379 In His Official 2002 Incoming Tax Account
- The Former Sheriff Should Settle Prior Year 2005, 2004, 2003, And 2002 Incoming Taxes
- The Former Sheriff Should Distribute Prior Years Additional Amounts Due Others
- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits
- Daily Receipt Listings For Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities
- The Former Sheriff Should Have Controlled The Use Of His Signature In The Check Signing Process
- The Former Sheriff Should Have Improved Recordkeeping Procedures
- The Former Sheriff Should Have Implemented Compensating Internal Controls To Offset The Lack Of Adequate Segregation Of Duties

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Denny Ray Noble, Perry County Judge/Executive

Honorable Dennis P. Wooton, Former Perry County Sheriff

Honorable John Leslie Burgett, Perry County Sheriff

Members of the Perry County Fiscal Court

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

June 4, 2008

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period July 29, 2006 Through December 31, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 688,633	\$ 1,171,224	\$ 2,829,499	\$ 890,354
Tangible Personal Property	214,977	579,097	964,894	888,488
Fire Protection	4,504			
Increases Through Exonerations	40	67	159	2,965
Additional Billings	254	419	1,014	329
Franchise Taxes	3,300	6,937	14,169	
Adjusted to Sheriff's Receipt	<u>(209)</u>	<u>(91)</u>	<u>(202)</u>	<u>(90)</u>
Gross Chargeable to Sheriff	<u>911,499</u>	<u>1,757,653</u>	<u>3,809,533</u>	<u>1,782,046</u>
<u>Credits</u>				
Exonerations	6,345	14,138	27,391	6,687
Discounts	12,159	24,254	51,248	27,054
Transfer To Incoming Sheriff:				
Regular Property Tax	293,914	523,857	1,205,647	422,706
Franchise Taxes	<u>305</u>	<u>489</u>	<u>1,174</u>	
Total Credits	<u>312,723</u>	<u>562,738</u>	<u>1,285,460</u>	<u>456,447</u>
Taxes Collected	598,776	1,194,915	2,524,073	1,325,599
Less: Commissions (a)	<u>25,736</u>	<u>50,784</u>	<u>37,861</u>	<u>56,625</u>
Taxes Due	573,040	1,144,131	2,486,212	1,268,974
Taxes Paid	570,124	1,137,823	2,473,226	1,268,912
Refunds (Current and Prior Year)	<u>66</u>	<u>97</u>	<u>263</u>	<u>86</u>
Due Districts or		(b)	(c)	(d)
(Refund Due Sheriff)				
as of Completion of Fieldwork	<u>\$ 2,850</u>	<u>\$ 6,211</u>	<u>\$ 12,723</u>	<u>\$ (24)</u>

(a), (b), (c), and (d) - See Following Page

The accompanying notes are an integral part of this financial statement.

PERRY COUNTY
 DENNIS P. WOOTON, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2006 TAXES
 For The Period July 29, 2006 Through December 31, 2006
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	3,109,290
1.5% on	\$	2,524,073

(b) Special Taxing Districts:

Library District	\$	4,296
Health District		874
Extension District		953
Soil District		18
City of Buckhorn		70

Due Districts	\$	<u>6,211</u>
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(c) School Taxing Districts:

Common School	\$	11,626
Graded School		<u>1,097</u>

Due Districts	\$	<u>12,723</u>
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(d) The former Sheriff received a \$24 refund from the Kentucky State Treasurer on June 22, 2007.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT

For The Period July 29, 2006 Through December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the depository institution did not have a written agreement with the former Sheriff securing the former Sheriff's interest in the surety bond provided as collateral.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
For The Period July 29, 2006 Through December 31, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a surety bond; however, the former Sheriff did not have a properly executed surety bond agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 28, 2006 through December 31, 2006.

Note 4. Interest Income

The former Perry County Sheriff earned \$1,309 as interest income on 2006 taxes. The former Sheriff distributed the appropriate amount to the school districts as required by statute, and the remainder was used to operate the Sheriff's office.

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 2006

Assets

Cash in Bank (All Tax Accounts)	\$ 3,962,098
Deposits in Transit	351,321
Collected Receivables:	
2006 Taxes	<u>1,337,321</u>
Total Assets	<u>5,650,740</u>

Liabilities

Paid Obligations-		
Outstanding Checks	\$ 95,954	
Liabilities Paid After December 31, 2006-		
2006 Taxes	<u>5,554,202</u>	
Total Paid Obligations		5,650,156
Unpaid Obligations-		
Other Taxing Districts-		
County	2,850	
Perry County School	11,626	
Hazard City School	1,097	
Library	4,296	
Health	874	
Extension Service	953	
Soil Conservation	18	
City of Buckhorn	70	
Tax Commissions Due Sheriff's Fee Account	380	
Refund Due Sheriff's 2006 Fee Account For Transfer Error	<u>159</u>	
Total Unpaid Obligations		<u>22,323</u>
Total Liabilities		<u>5,672,479</u>
Total Fund Deficit as of December 31, 2006		<u><u>\$ (21,739)</u></u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Denny Ray Noble, Perry County Judge/Executive
Honorable Dennis P. Wooton, Former Perry County Sheriff
Honorable John Leslie Burgett, Perry County Sheriff
Members of the Perry County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Perry County Sheriff's Settlement - 2006 Taxes for the period July 29, 2006 through December 31, 2006, and have issued our report thereon dated June 4, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Perry County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Perry County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Perry County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- Daily Receipt Listings For Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities
- The Former Sheriff Should Have Controlled The Use Of His Signature In The Check Signing Process
- The Former Sheriff Should Have Improved Recordkeeping Procedures
- The Former Sheriff Should Have Implemented Compensating Internal Controls To Offset The Lack Of Adequate Segregation Of Duties

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Perry County Sheriff's Settlement - 2006 Taxes for the period July 29, 2006 through December 31, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations

- The Former Sheriff Had A Deficit Of \$21,739 In His Official 2006 Outgoing Tax Account
- The Former Sheriff Should Settle 2006 Outgoing Taxes
- The Former Sheriff Should Distribute Additional Amounts Due Others
- An Accurate And Complete Receipts Ledger Was Not Maintained
- The Former Sheriff Should Have Distributed Franchise Tax Collections By The Tenth Of Each Month
- Tax Collections Were Not Always Deposited Timely
- The Practice Of Cashing Checks From Office Funds Should Have Been Prohibited
- The Former Sheriff Had A Deficit Of \$136,658 In His Official 2005 Tax Account
- The Former Sheriff Had A Deficit Of \$162,727 In His Official 2004 Tax Account
- The Former Sheriff Had A Deficit Of \$195,985 In His Official 2003 Tax Account

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters (Continued)

- The Former Sheriff Had A Deficit Of \$44,379 In His Official 2002 Incoming Tax Account
- The Former Sheriff Should Settle Prior Year 2005, 2004, 2003, And 2002 Incoming Taxes
- The Former Sheriff Should Distribute Prior Years Additional Amounts Due Others
- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

The former Perry County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the former Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

June 4, 2008

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COMMENTS AND RECOMMENDATIONS

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period July 29, 2006 Through December 31, 2006

STATE LAWS AND REGULATIONS:

1. The Former Sheriff Had A Deficit Of \$21,739 In His Official 2006 Outgoing Tax Account

Based upon the available records, the former Sheriff had a deficit of \$21,739 in his official bank account as of December 31, 2006. This deficit appears to be the result of a scheme to manipulate the accounting records by a former employee of the Sheriff's office to conceal the apparent theft of cash payments made by individuals for property taxes. The missing cash of \$21,739 was replaced by corporate franchise tax payments made by check that were never included on a monthly franchise report for distribution to taxing districts. We recommend that the former Sheriff take appropriate action to eliminate this deficit in his official bank account by contacting the county attorney to notify the bonding company, and by working with law enforcement officials regarding an investigation.

Former Sheriff's Response: On June 5, 2008, I made request of the Perry County Attorney to contact the bonding company.

2. The Former Sheriff Should Settle 2006 Outgoing Taxes

Based on our audit of the 2006 outgoing taxes as of December 31, 2006 the former Sheriff owes the following additional amounts to the taxing districts:

<u>Taxing District</u>	<u>Amount</u>
County	\$ 2,850
Common School	11,626
Graded School	1,097
Library	4,296
Health	874
Extension Service	953
Soil Conservation	18
City of Buckhorn	70
Total Due Taxing Districts	<u>\$ 21,784</u>

We recommend that the former Sheriff settle 2006 outgoing taxes by paying additional amounts due to taxing districts.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

PERRY COUNTY
 DENNIS P. WOOTON, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period July 29, 2006 Through December 31, 2006
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

3. The Former Sheriff Should Distribute Additional Amounts Due Others

Based upon the results of our test procedures, the following amounts are due others:

<u>Others Owed</u>	<u>Amount</u>
Amounts Due 2006 Fee Account -	
Additional Commissions Due	\$ 380
Reimbursement for Transfer Error	159
Total Due Others	<u>\$ 539</u>

We recommend that the former Sheriff pay the additional amounts due others in order to satisfy all liabilities of the 2006 outgoing tax account.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

4. An Accurate And Complete Receipts Ledger Was Not Maintained

All tax collections were not recorded and were not properly classified on the former Sheriff's receipts ledger. KRS 134.160 required the former Sheriff to "keep an accurate account of all moneys received by him, showing the amount, the time when and the person from whom received, and on what account." We found two discrepancies where receipt ledger entries totaling \$5,287 incorrectly identified transactions as property tax collections rather than franchise collections received from public service companies. In addition, we also noted another discrepancy where a deposit in the amount of \$54,521 that included a franchise collection received from a public service company totaling \$17,150 was not recorded on the receipts ledger. The former Sheriff should have taken steps to ensure all collections and their appropriate sources were accurately recorded and correctly identified on the receipts ledger.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 29, 2006 Through December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

5. The Former Sheriff Should Have Distributed Franchise Tax Collections By The Tenth Of Each Month

Franchise collections were not accurately reported during the 2006 outgoing tax collection period. KRS 134.300 requires the Sheriff, by the tenth of each month, to report and distribute the amount of taxes he has collected during the preceding month. Franchise tax collections totaling \$22,437 were never reported and distributed to the taxing districts. As reflected on our Sheriff's Settlement - 2006 Taxes, a significant net amount of franchise taxes are due to taxing districts as the result of these reporting errors. Therefore, the former Sheriff should have complied with KRS 134.300 that required the reporting and distribution of each month's collections by the tenth of the following month.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

6. Tax Collections Were Not Always Deposited Timely

In some instances franchise payments received from public service companies were held and not deposited for as long as one hundred thirty five (135) working days. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements that include depositing receipts intact on a daily basis. Therefore, the former Sheriff should have deposited into his official tax account each day, whether in the form of cash or check all monies collected by him.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

7. The Practice of Cashing Checks From Office Funds Should Have Been Prohibited

During our audit, we noted that personal checks and/or third party checks were cashed from tax collections of the former Sheriff's office. When this occurred, the receipts deposited did not agree with the original form of cash and checks received by the former Sheriff's office for tax collections. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements that include depositing receipts intact on a daily basis and reconciling deposits to batched receipts. The former Sheriff should have deposited receipts intact (i.e., in the same form as they were collected) as required by the State Local Finance Officer. Furthermore, the practice of cashing checks whether personal or third party should have been prohibited as such unrelated receipt transactions distorts the cash audit trail.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 29, 2006 Through December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

8. The Former Sheriff Had A Deficit Of \$136,658 In His Official 2005 Tax Account

As reported in the prior year, based upon the available records, the former Sheriff had a deficit of \$136,658 in his official 2005 tax bank account as of July 28, 2006. This deficit appears to be the result of a scheme to manipulate the accounting records by a former employee of the Sheriff's office to conceal the apparent theft of cash payments made by individuals for property taxes. The missing cash of \$136,658 was replaced by corporate franchise tax payments made by check that were never included on a monthly franchise report for distribution to taxing districts. We recommend the former Sheriff take appropriate action to eliminate this deficit by contacting the county attorney to notify the bonding company, and by working with law enforcement officials regarding an investigation.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

9. The Former Sheriff Had A Deficit Of \$162,727 In His Official 2004 Tax Account

As reported in the prior year, based upon the available records, the former Sheriff had a deficit of \$162,727 in his official 2004 tax bank account as of July 29, 2005. This deficit appears to be the result of a scheme to manipulate the accounting records by a former employee of the Sheriff's office to conceal the apparent theft of cash payments made by individuals for property taxes. The missing cash of \$162,727 was replaced by corporate franchise tax payments made by check that were never included on a monthly franchise report for distribution to taxing districts. On December 28, 2005, a former employee made a personal deposit of \$1,855 in the former Sheriff's official tax account for 2004 taxes, leaving a remaining deficit of \$160,872 in his official 2004 tax account. We recommend the former Sheriff take appropriate action to eliminate the remaining deficit by contacting the county attorney to notify the bonding company, and by working with law enforcement officials regarding an investigation.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

10. The Former Sheriff Had A Deficit Of \$195,985 In His Official 2003 Tax Account

As reported in the prior year, based upon the available records, the former Sheriff had a deficit of \$195,985 in his official 2003 tax bank account as of August 31, 2004. This deficit appears to be the result of a scheme to manipulate the accounting records by a former employee of the Sheriff's office to conceal the apparent theft of cash payments made by individuals for property taxes. The missing cash of \$195,985 was replaced by corporate franchise tax payments made by check that were never included on a monthly franchise report for distribution to taxing districts. We recommend the former Sheriff take appropriate action to eliminate this deficit by contacting the county attorney to notify the bonding company, and by working with law enforcement officials regarding an investigation.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 29, 2006 Through December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

11. The Former Sheriff Had A Deficit Of \$44,379 In His Official 2002 Incoming Tax Account

As reported in the prior year, based upon the available records, the former Sheriff had a deficit of \$44,379 in his official 2002 tax bank account as of August 31, 2003. This deficit appears to be the result of a scheme to manipulate the accounting records by a former employee of the Sheriff's office to conceal the apparent theft of cash payments made by individuals for property taxes. The missing cash of \$44,379 was replaced by corporate franchise tax payments made by check that were never included on a monthly franchise report for distribution to taxing districts. We recommend the former Sheriff take appropriate action to eliminate this deficit by contacting the county attorney to notify the bonding company, and by working with law enforcement officials regarding an investigation.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

12. The Former Sheriff Should Settle Prior Year 2005, 2004, 2003, And 2002 Incoming Taxes

As reported in the prior year, the former Sheriff owes the following additional amounts to the taxing districts as the result of additional franchise procedures performed and previously reported unsettled tax obligations on the 2005, 2004, 2003, and 2002 incoming tax collection periods:

Taxing District	2005 Tax Year	2004 Tax Year	2003 Tax Year	2002 Incoming Tax Year
Kentucky State Treasurer	\$	\$	\$ 120	\$
County	18,969	22,995	39,111	8,078
Common School	69,781	38,271	94,625	27,184
Graded School	7,662	51,435	52,174	1,118
Library	23,087	25,503	34,730	5,776
Health	5,896	6,243	9,880	1,812
Extension Service	5,530	6,631	9,577	1,205
Soil Conservation	685	22		113
Total Due Taxing Districts	<u>\$ 131,610</u>	<u>\$ 151,100</u>	<u>\$ 240,217</u>	<u>\$ 45,286</u>

We recommend the former Sheriff settle prior years' tax obligations for the 2005, 2004, 2003, and 2002 incoming tax collection periods by paying additional amounts due to taxing districts.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 29, 2006 Through December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

13. The Former Sheriff Should Distribute Prior Years Additional Amounts Due Others

As reported in the prior year, the former Sheriff owes the following additional amounts to others as the result of additional franchise procedures performed on the 2005, 2004, 2003, and 2002 incoming tax collection periods:

Others Owed	2005 Tax Year	2004 Tax Year	2003 Tax Year	2002 Incoming Tax Year
Fee Account - Additional Commissions Due	\$ 3,642	\$ 4,037	\$ 4,171	\$ 635
Refunds Due For Overpayments Collected In Error-				
County	635			
Library	625		287	
Health	120		17	
Extension Service	166			
Graded School		370		274
Soil Conservation		165		
Fee Account - Transfer Error		3,175		
Interest Due Sheriff's Fee Account			389	
Interest Due Perry County School			207	
Interest Due Hazard Independent School			75	
2004 Franchise Taxpayer		1,998		
2004 Property Taxpayer		27		
2003 Property Taxpayer			142	
Total Due Others	<u>\$ 5,188</u>	<u>\$ 9,772</u>	<u>\$ 5,288</u>	<u>\$ 909</u>

We recommend that the former Sheriff pay the additional amounts due others in order to satisfy all liabilities of the 2005, 2004, 2003, and 2002 incoming tax accounts.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

PERRY COUNTY
 DENNIS P. WOOTON, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period July 29, 2006 Through December 31, 2006
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

14. The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of December 28, 2006, the former Sheriff had bank deposits of \$4,197,623; FDIC insurance of \$100,000; and surety bond provided as collateral pledged of \$5,100,000. Even though the former Sheriff obtained sufficient collateral of \$5,100,000, there was no written agreement between the former Sheriff and the depository institution, signed by both parties, securing the former Sheriff's interest in the surety bond provided as collateral. Therefore, the former Sheriff should have entered into a written agreement with the depository institution to secure the former Sheriff's interest in the surety bond provided as collateral. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES:

15. Daily Receipt Listings For Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities

Based upon the available records, the former Sheriff had a deficit of \$21,739 in his official 2006 tax bank account as of December 31, 2006. This deficit was the result of unreported franchise payments received in the form of checks that were falsified and/or manipulated on the former Sheriff's records and reports and were then used to replace undeposited cash. Examples of how this deficit went undetected are as follows:

- A receipt listing dated December 5, 2006 failed to include a franchise payment of \$17,150 from a public service company that was included in deposit detail obtained from the bank. Further testing determined the franchise payment was never included on a monthly report for distribution to taxing districts.
- Entries on receipt listings dated December 14, 2006 and December 28, 2006 for \$4,094 and \$1,193, respectively, were recorded at the proper amounts on the receipts listing, but were included with regular tax collections, when in fact, deposit detail obtained from the bank revealed the listings were franchise payments from two public service companies. Further testing determined these franchise payments were never included on a monthly report for distribution to taxing districts.

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 29, 2006 Through December 31, 2006
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES:
(Continued)

15. Daily Receipt Listings For Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities (Continued)

A former employee prepared the receipt listings, deposit tickets, and daily checkouts, as well as maintained the receipts ledger and made distributions to the taxing districts. As a result of this lack of adequate segregation of duties in the area of cash receipts, manipulation and falsification of receipt listings, deposits, and monthly reports occurred and was not detected. The former Sheriff should have segregated cash receipt duties and/or implemented appropriate compensating controls to oversee and monitor these activities.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

16. The Former Sheriff Should Have Controlled The Use Of His Signature In The Check Signing Process

We identified internal control weaknesses in the former Sheriff's operations relating to the segregation of duties over tax disbursements and check signing procedures. During our review of disbursement procedures, it came to our attention that with little or no oversight the former Sheriff allowed a former employee to sign his name to checks issued from the tax account. This person was also responsible for preparing tax distribution checks and maintaining the disbursement ledger, as well as other key duties relating to the receipt function. Allowing one individual to be responsible for all phases of transactions significantly increased the risk that incorrect payments and other errors or irregularities could occur and not be detected in a timely manner. To adequately control checks issued from the tax account, the former Sheriff should have segregated the duties over cash disbursements and should not have allowed this employee to sign his name to checks for which he was the authorized signatory.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 29, 2006 Through December 31, 2006
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES:
(Continued)

17. The Former Sheriff Should Have Improved Recordkeeping Procedures

Based upon the review of former Sheriff's records, the following recordkeeping areas were noted as needing improvement. To allow for better accountability of tax receipts, the former Sheriff should have improved the following.

- Batched tax bills were not grouped and filed along with their corresponding daily check out sheet. Because of this, a comparison between daily batched tax bills and daily deposits could not always be performed. Tax bills should have been maintained in their original batched form to allow for an audit trail of all daily tax collections.
- During the 2006 outgoing tax collection period, there were numerous instances where the cash and/or check totals recorded on the deposit slip did not agree with the total cash and checks presented to the bank for deposit. The deposit slip preparation process should have included steps to verify the accuracy of information included on deposit slips and that the deposit slip agreed with the daily check out sheet.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

18. The Former Sheriff Should Have Implemented Compensating Internal Controls To Offset The Lack Of Adequate Segregation Of Duties

The internal control structure lacked an adequate segregation of duties because one individual performed almost all accounting functions of the former Sheriff's office. While it may not have been practical to segregate duties because of limited resources, the former Sheriff could have established compensating controls to address the lack of adequate segregation of duties. Such compensating controls could have included the former Sheriff periodically reviewing and verifying the work in question. To reduce the risk that errors or irregularities could occur and not be detected in a timely manner, the former Sheriff could have provided the oversight necessary to ensure adequate controls were appropriately designed and operating effectively over the cash collections, reconciliations, reporting and distribution processes.

Former Sheriff's Response: See attached letter 6-16-08 (following Comment #18)

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 29, 2006 Through December 31, 2006
(Continued)

PRIOR YEAR:

The Former Sheriff Had A Deficit Of \$136,658 In His Official 2005 Tax Account - Repeated

The Former Sheriff Had A Deficit Of \$162,727 In His Official 2004 Tax Account - Repeated

The Former Sheriff Had A Deficit Of \$195,985 In His Official 2003 Tax Account - Repeated

The Former Sheriff Had A Deficit Of \$44,379 In His Official 2002 Incoming Tax Account - Repeated

The Former Sheriff Should Settle Prior Year 2005, 2004, 2003, And 2002 Incoming Taxes - Repeated

The Former Sheriff Should Distribute Prior Years Additional Amounts Due Others - Repeated

An Accurate And Complete Receipts Ledger Was Not Maintained - Repeated

The Former Sheriff Should Have Distributed Franchise Tax Collections By The Tenth Of Each Month - Repeated

Tax Collections Were Not Always Deposited Timely - Repeated

The Practice Of Cashing Checks From Office Funds Should Have Been Prohibited - Repeated

The Former Sheriff Should Have Had A Written Agreement To Protect Deposits - Repeated

Receipt Listings For 2005, 2004, and 2003 Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities - Repeated

The Former Sheriff Should Have Controlled The Use Of His Signature In The Check Signing Process - Repeated

The Former Sheriff Should Have Improved Recordkeeping Procedures - Repeated

The Former Sheriff Should Have Implemented Compensating Internal Controls To Offset The Lack Of Adequate Segregation Of Duties - Repeated

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
FORMER SHERIFF'S RESPONSE TO COMMENTS AND RECOMMENDATIONS
For The Period July 29, 2006 Through December 31, 2006

June 16, 2008

Auditor of Public Accounts
105 Sea Hero Road, Suite #2
Frankfort, Kentucky 40601-5404
Attention:

Dear

On Thursday June 4, 2008 I met with the Kentucky State Auditors Office to learn of a very large deficit in Franchise Tax collection during my 4 year term of office as Perry County Sheriff. The deficit was, in words of the Auditors Office, "due to a very complex scam of a type they have not detected before and has taken the Auditors Office 18 months to discover."

Clearly my response was that of shock and complete surprise as during my term as Perry County Sheriff we were audited yearly by a local CPA office and once a year by Auditors of the State Auditors Office or Auditors under contract to the Kentucky State Auditors Office. Not one of these seven audits gave any indication that anyone in the Perry County Sheriffs Office had falsified and/or manipulate records. The audits by both the local auditor and the State Auditor's Office in 2002, 2003, 2004, and 2005 failed to show a deficit or the need for any changes regarding the collection and accounting of Franchise Taxes. In addition, my office submitted a tax report to the Kentucky Revenue Cabinet each month. No alarm was sounded by any external control.

Any falsified and/or manipulated records in the collection of Franchise taxes would have resulted in less operation funds for the Sheriffs Office as well as other local taxing entities. Again, no alarms were sounded from any sources.

Due to privacy aspects of the tax audits, accounting records, and time limitations, I am unable to address and respond to specific allegations in the audit. I have requested the Kentucky State Auditors Office to proceed immediately to turn their finding over to the State Attorney Generals Office or the Kentucky State Police for a complete and aggressive investigation into any and all aspects of Franchise Taxes during my term as Perry County Sheriff.

Sincerely Yours,



Dennis P. Wooton
Former Perry County Sheriff

Former Sheriff's Additional Response: Again let me emphasize my request for law enforcement to investigate handling of franchise taxes during my term as Sheriff and to express my appreciation to the APA for reviewing records prior to my assuming office and finding evidence of a history of this scam.